

**PUBLIC DISCLOSURE**

NOVEMBER 17, 2004

**COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**STONEHAM SAVINGS BANK**

359 MAIN STREET  
STONEHAM, MA 02180

DIVISION OF BANKS  
ONE SOUTH STATION  
BOSTON, MA 02110

<p><b>NOTE:</b> This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the Division of Banks concerning the safety and soundness of this financial institution.</p>
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## GENERAL INFORMATION

The Community Reinvestment Act ("CRA") requires the Massachusetts Division of Banks ("Division") to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting its needs of its entire local community, including low and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the Division must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the CRA performance of **STONEHAM SAVINGS BANK (or the "Bank")** prepared by the Division, the institution's supervisory agency, as of **NOVEMBER 17, 2004**. The Division evaluates performance in the assessment area(s), as they are defined by the institution, rather than individual branches. This assessment area evaluation may include the visits to some, but not necessarily all of the institution's branches. The Division rates the CRA performance of an institution consistent with the provisions set forth in 209 CMR 46.00.

### **INSTITUTION'S CRA RATING: This institution is rated "SATISFACTORY".**

Stoneham Savings Bank has demonstrated adequate responsiveness to credit needs, particularly within its assessment area. A majority of the Bank's loans were originated or purchased inside the assessment area. The Bank's lending demonstrates a good distribution of loans among individuals of different income levels and businesses of different sizes. The Bank has an adequate record of serving the credit needs of low and moderate-income areas in its assessment area. The Bank's level of community development is considered to be adequate at this time. In addition, Stoneham Savings Bank's fair lending performance was found to be adequate at this time. Based on this information, the Bank's lending performance receives a rating of Satisfactory.

Stoneham Savings Bank primarily participates in qualified investments through the provision of grants. These investments are primarily directed at low and moderate-income individuals and areas. An analysis of the total qualified contributions for 2002, 2003, and year to date November 30, 2004, indicates the Bank made total monetary contributions of \$39,261. In addition to these grants, Stoneham Savings Bank participates in an innovative grant program with the Community Services Network. The total contribution granted by Stoneham Savings Bank is \$28,750. Based on this information, the Bank's investment performance is considered to be Satisfactory.

The Bank's systems for delivering retail banking services are accessible to geographies and individuals of different income levels in its assessment area. The Bank's Trustees, officers, and employees have provided a relatively high level of service activities primarily for community development purposes and related to the provision of financial services. Therefore, the Bank's service activities receive a rating of High Satisfactory.

In conclusion, Stoneham Savings Bank has demonstrated an adequate level of lending, an adequate level of qualified donations, and a relatively high level of services. Overall, the Bank exhibits adequate responsiveness to credit and community economic development

needs throughout its assessment area. Therefore, Stoneham Savings Bank's performance in the area of Community Reinvestment was found to be Satisfactory at this time.

**LENDING, INVESTMENT, AND SERVICE TEST TABLE**

<b>PERFORMANCE TESTS</b> <b>Stoneham Savings Bank</b>			
<b>Performance Levels</b>	Lending Test*	Investment Test	Service Test
Outstanding			
High Satisfactory			<b>X</b>
Satisfactory	<b>X</b>	<b>X</b>	
Needs to Improve			
Substantial Non-Compliance			

\* Note: The Lending Test is weighed more heavily than the Service and Investment Tests when arriving at an overall rating.

## **PERFORMANCE CONTEXT**

### **Description of Institution**

Stoneham Savings Bank is a mutually-owned financial institution with \$314 million in total assets, of which approximately \$193 million are in gross loans as of September 30, 2004. This is the Bank's first examination conducted under the large bank examination procedures. The Bank's primary focus is 1-4 family residential real estate which comprises 44.3 percent of the total loan portfolio. Refer to the following table for more information.

### **Loan Portfolio**

<b>Loan Type</b>	<b>Amount (\$ 000s)</b>	<b>Percent</b>
1-4 Family Residential Real Estate	\$76,320	39.6%
Nonfarm Nonresidential Real Estate	\$49,840	25.8%
Construction and Land Development Real Estate	\$24,664	12.8%
Multi-Family Residential Real Estate	\$22,031	11.4%
Commercial and Industrial	\$10,496	5.4%
Equity Lines of Credit	\$9,065	4.7%
Loans to Individuals	\$286	0.2%
Other Loans	\$214	0.1%
<b>Total</b>	<b>\$192,916</b>	<b>100.0</b>

Source: September 30, 2004, Consolidated Report of Condition.

As shown by the data in the table above, the loan portfolio is diversified. Approximately 39.6 percent are centered on 1-4 family residential real estate followed by non farm non-residential real estate at 25.8 percent, construction and land development real estate at 12.8 percent, and multi-family residential real estate at 11.4 percent.

The Bank operates in a highly competitive area. Competition includes both state and nationally chartered financial institutions located within its assessment area. Its primary competitors include Bank of America, Citizens Bank, Stoneham Co-operative Bank, as well as national and area mortgage companies.

The examiners used PCI Services, Inc., CRA Wiz, to generate aggregate Home Mortgage Disclosure Act ("HMDA") reports, when comparing Stoneham Savings Bank to all other HMDA lenders throughout its assessment area for calendar year 2003. The other HMDA reporters, totaling 495, include bank and non-bank entities such as large national banking companies, local banks, credit unions, and mortgage companies.

The Bank was last examined for compliance with CRA by the Division as of May 26, 1998. That examination resulted in a CRA rating of Outstanding. The Bank was last examined by the Federal Deposit Insurance Corporation ("FDIC") for compliance with CRA as of July 7, 1999. That examination also resulted in a CRA rating of Outstanding. Both of the above-referenced examinations were conducted utilizing procedures for a small institution under the CRA regulation.

## DESCRIPTION OF ASSESSMENT AREA

The CRA requires a Bank to designate one or more assessment area(s) within which its record of helping to meet the needs of its community will be evaluated. Stoneham Savings Bank's assessment area consists of the cities and towns of Andover, Billerica, Burlington, North Andover, North Reading, Reading, Stoneham, Tewksbury, Wakefield, Wilmington, Winchester, Malden, Medford, Melrose, and Woburn.

The assessment area contains 86 census tracts: 8 (9.3 percent) are moderate-income, 51 (59.3 percent) are middle-income, and 27 (31.4 percent) are upper-income. The moderate-income tracts are located in Malden (5) and Medford (3). The Bank's assessment area contains a total population of 452,395 individuals. Minority individuals account for 49,124 or 10.8 percent of the total population of the assessment area.

## Housing Prices

Home prices have continued to increase over the past few years, despite some slowdown in other parts of the economy. According to the 2000 U.S. Census, the median housing value in the assessment area was \$240,786. The median housing prices ranged from a low of \$287,500 to a high of \$434,000 in 2003. Table B contains the cities/towns that comprise the assessment area and the median sales prices. This table highlights the increasing trend in home values and provides some insight into the constraints facing a financial institution that desires to serve these communities. It should be noted that at these elevated values, it would be extremely difficult for a low- or moderate-income applicant to qualify for conventional financing.

<b>Table B – Median Sales Price</b>		
<b>City/Town</b>	<b>2003</b>	<b>2002</b>
Andover	\$434,000	\$409,900
North Andover	\$372,500	\$311,250
Tewksbury	\$287,500	\$260,000
Billerica	\$307,500	\$270,000
North Reading	\$389,900	\$310,000
Wilmington	\$347,500	\$305,000
Burlington	\$359,900	\$344,000
Woburn	\$319,000	\$290,000
Reading	\$365,000	\$340,000
Wakefield	\$352,450	\$320,000
Melrose	\$365,900	\$329,000
Stoneham	\$319,900	\$291,000
Winchester	\$585,000	\$517,000
Medford	\$345,000	\$305,000
Malden	\$311,500	\$264,450

*Source: Warren Group; Median sales price of one-family and condominium sales.*

The table above illustrates the continuing rise in the median prices in the assessment area. The increase in the median prices significantly impacts the affordability of the housing stock in the assessment area; the more the prices appreciate the less likely low or moderate-income individuals or families are able to afford a home mortgage loan.

## Income

The Department of Housing and Urban Development (“HUD”) adjusts the Median Family Income (“MFI”) based on estimates. Table C reflects these HUD adjusted MFIs for 2002, and 2003.

<b>Table C – Median Family Income Levels</b>		
<b>PMSA</b>	<b>2002</b>	<b>2003</b>
Lowell, MA-NH (4560)	\$75,200	\$79,700
Boston, MA-NH (1120)	\$74,200	\$80,800
Lawrence, MA-NH (4160)	\$67,400	\$74,300

*\* These figures are based on estimates from the Department of Housing and Urban Development (HUD).*

## Employment Information

Similar to the rest of the United States, the assessment area has been experiencing recent improvement in its overall economy. While the unemployment rates throughout the area increased from 2002 to 2003, the year-to-date (“YTD”) 2004 unemployment rates have also improved. The following table contains some of the more significant communities within the assessment area.

<b>Table D – Unemployment Data</b>			
	<b>YTD 2004</b>	<b>2003</b>	<b>2002</b>
United States	5.6	6.0	5.8
Massachusetts	5.3	5.8	5.3
Essex County	6.4	6.8	6.2
Middlesex County	4.4	5.1	4.9
Stoneham, MA	4.8	5.0	4.8
Medford, MA	4.7	5.3	4.8
Malden, MA	5.5	6.2	5.3
Norfolk County	4.4	4.8	4.4
Plymouth County	5.6	5.6	4.9
Suffolk County	5.5	6.2	5.7

Analysis of this data indicates a recent improvement in the assessment area’s economy.

## **Community Contact Information**

As part of the examination, community organizations are often contacted by examiners to determine if there are any areas in need of assistance from local institutions, and to verify if the institutions are meeting the credit needs of the community. These interviews also provide examiners with knowledge regarding the assessment area, its economic base, and community development initiatives.

During this examination, the examiners contacted the executive director of an organization that is concerned with affordable housing and community development activities in the Town of Stoneham. The Bank is quite involved with this organization.



## **CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS:**

### **LENDING TEST**

The lending test evaluates a bank's record of helping to meet the credit needs of its assessment area through its lending activities by considering a bank's home mortgage, small business, small farm and community development lending. The bank's lending performance is determined by factors such as the volume of the institution's loans within its assessment area, particularly to low and moderate-income borrowers and geographies; the amount of small business loans originated to businesses with annual revenues less than \$1 million; the institution's responsiveness to community development lending; and the use of innovative and flexible lending practices. The following information details the data compiled and reviewed, as well as conclusions on the Bank's performance.

#### **I. Lending Activity**

Stoneham Savings Bank's assets totaled approximately \$314 million as of September 30, 2004. Gross loans totaled \$192,906,000 and the net loan-to-deposit ratio was 75.5 percent. There have been some significant changes in the composition of the Bank's loan portfolio since the last examination. As of the last CRA examination dated May 26, 1998, 1-4 family residential mortgages comprised 78.9 percent of the total loan portfolio.

As of September 30, 2004, 44.3 percent of the loan portfolio was secured by 1-4 family residential mortgages followed by nonfarm non-residential real estate with 25.8 percent.

In addition, as of the last examination date, Stoneham Savings Bank's asset size was \$180 million compared to \$314 million as of September 30, 2004, a 74.4 increase.

From January 1, 2002 to December 31, 2003, the Bank originated a total of 326 HMDA reportable mortgages totaling \$59,629,000, of which 257 mortgages totaling \$37,749,000 were in its assessment area. Of the HMDA reportable loans originated in the assessment area, 80.1 percent were for refinances, 12.5 percent were for purchases, and 7.4 percent were for home improvements.

In 2002, the Bank originated 153 HMDA reportable loans totaling \$26,081,000. During 2003, the Bank originated 173 HMDA reportable loans totaling \$32,828,000.

The Bank originated 121 HMDA reportable mortgages within its assessment area during 2002 ranking the Bank 69<sup>th</sup> in market share. Of the 173 HMDA reportable loans originated in 2003, 136 were inside the assessment area ranking the bank 82<sup>nd</sup> in market share.

An analysis of the Bank's small business lending was conducted for 2003 as this was the first time Stoneham Savings Bank was required to collect the data. This review indicated that Stoneham Savings Bank originated 66.7 percent of its small business loans throughout its assessment area.

Overall, the Bank's level of HMDA reportable and small business lending reflects adequate responsiveness to credit needs of the assessment area based on the size of the Bank, its financial condition, and its strong local competition.

## **II. Geographic Distribution**

### **HMDA-Reportable Loans**

Stoneham Savings Bank's 2002 and 2003 Loan Application Registers ("LAR"s) were reviewed to determine the amount of credit extended within the Bank's assessment area. During this period, the Bank originated and/or purchased a total of 326 HMDA reportable loans totaling approximately \$59,629,000. Of this amount, 257 loans or 78.8 percent of the number, totaling \$37,749,000 or 63.3 percent of the dollar amount, were originated within the Bank's assessment area.

By number, Stoneham accounted for the largest volume of loans with 34.2 percent originated within the assessment area, followed by Woburn with 11.3 percent, and Wilmington with 10.1 percent.

Refer to the following tables for additional information regarding the Bank's HMDA reportable lending, by both number and dollar amount.

<b>Distribution of Home Mortgage Loans Inside and Outside of the Assessment Area</b>								
<b>Year</b>	<b>Inside</b>				<b>Outside</b>			
	<b>Number of Loans</b>		<b>Dollar in Loans (000s)</b>		<b>Number of Loans</b>		<b>Dollars in Loans (000s)</b>	
	<b>#</b>	<b>%</b>	<b>\$</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>\$</b>	<b>%</b>
<b>2002</b>	121	79.1%	17,309	64.6%	32	20.9%	9,492	35.4%
<b>2003</b>	136	78.6%	20,440	62.3%	37	21.4%	12,388	37.7%
<b>Total</b>	257	78.8%	37,749	63.3%	69	21.2%	21,880	36.7%

Source: HMDA/LAR, CRA Wiz – 2002 and 2003

As depicted in the above table, the majority of the Bank's HMDA reportable lending, by both number and dollar amount, has been extended inside of the Bank's assessment area.

Stoneham Savings Bank operates in a highly competitive market, as a total of 495 lenders originated and/or purchased HMDA reportable loans throughout the assessment area during 2003. The intense level of competition is further illustrated by the market share percentages achieved by the top lenders within the assessment area. Countrywide Home Loans accounted for the largest market share throughout the assessment area capturing approximately ten percent followed by Washington Mutual Bank, FA at approximately eight percent. Stoneham Savings Bank ranked 82<sup>nd</sup>.

## Small Business Lending

A small business loan, as defined in the FDIC Call Report instructions, is "...a loan with an original amount of \$1 million or less...secured by non-farm non-residential properties; or commercial and industrial loans to U.S. addresses." Information was obtained from the Bank's small business loan registers, which were maintained under a format prescribed by the federal CRA regulations.

An analysis of the Bank's small business lending was completed for 2003 as this was the first year Stoneham Savings Bank was required to report the data. This review indicated that Stoneham Savings Bank originated 57 small business loans totaling \$12,424,000. Of these loans, 38 or 66.7 percent were originated within the Bank's assessment area. Additionally, the small business LAR for this period indicated that \$7,458,000 or 60.0 percent of the small business loans by dollar amount were originated within the assessment area.

As mentioned previously, the Bank faces significant competition within the assessment area from credit unions, large regional banks, and mortgage companies. Stoneham Savings Bank's lending throughout the assessment area is considered to be adequate.

### **III. Distributions by Census Tract Income Level**

#### **HMDA-Reportable Lending**

The following table provides a breakdown, by number, of the Bank's HMDA-reportable loans within its assessment area according to census tract income level. The table also shows the number of loans in comparison to the number of owner-occupied housing units in each census tract income category.

<b>Distribution of HMDA Reportable Loans by Income Level</b>							
<b>Census Tract Income Level</b>	<b>% Total Owner-Occupied Housing Units</b>	<b>2002</b>		<b>2003</b>		<b>Total</b>	
		<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
<b>Moderate</b>	6.2%	0	0.0%	2	1.5%	2	0.8%
<b>Middle</b>	59.6%	92	76.0%	117	86.0%	209	81.3%
<b>Upper</b>	34.2%	29	24.0%	17	12.5%	46	17.9%
<b>Total</b>	100.0%	121	100.0%	136	100.0%	257	100.0%

Source: U.S. Census, HMDA LAR – 2002 and 2003

As shown in the above table, 0.8 percent of the Bank's total HMDA reportable loans were within moderate-income census tracts. This number indicates that the activity in moderate-income census tracts is well below the percentage of owner-occupied housing units in the assessment area. While this percentage is low, the percentage of housing units in moderate-income areas is also relatively small, so there are limited

lending opportunities present. In addition, the above data shows that the amount and number of loans in middle and upper-income census tracts is also not proportionate to the amount of properties in these areas. The lending pattern shows a heavy concentration of mortgage lending in middle-income tracts, which is expected due to the demographic makeup of the assessment area.

The geographic distribution of the Bank's loans by census tract income category may also be compared to that of all other HMDA reportable lenders in the assessment area. Other HMDA reporters include bank and non-bank entities such as large national banking companies, other local banks, credit unions and mortgage companies. The most recent data available for this analysis relates to calendar year 2003 and is presented in the following table.

<b>Distribution of HMDA Reportable Loans Stoneham Savings Bank Compared to All Other Reporters</b>								
<b>Census Tract Income Level</b>	<b>Number of Loans</b>				<b>Dollar Amount of Loans</b>			
	<b>Stoneham Savings Bank</b>		<b>All Other Reporters</b>		<b>Stoneham Savings Bank</b>		<b>All Other Reporters</b>	
	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>\$(000)</b>	<b>%</b>	<b>\$(000)</b>	<b>%</b>
<b>Moderate</b>	2	1.5%	3,950	5.6%	210	1.0%	825,060	5.3%
<b>Middle</b>	117	86.0%	40,744	57.8%	17,078	83.6%	8,238,076	52.6%
<b>Upper</b>	17	12.5%	25,771	36.6%	3,152	15.4%	6,601,668	42.1%
<b>Total</b>	136	100.0%	70,465	100.0%	20,440	100.0%	15,664,804	100.0%

Source: 2003 HMDA Aggregate Data

As demonstrated above, aggregate lending patterns were very comparable to the percentage of total owner-occupied units in each geographic income level.

Stoneham Savings Bank was below the aggregate in lending to moderate-income census tracts during 2003. The Bank originated 1.5 percent of its HMDA reportable loans to moderate-income census tracts while the aggregate originated 5.6 percent in the same areas. However, the Bank outperformed the aggregate by originating 86.0 percent of its loans in middle-income tracts compared to the aggregate with 57.8 percent.

### **Small Business Lending**

Stoneham Savings Bank's small business loans were also analyzed to determine the distribution by census tract income level within its assessment area during 2003. This analysis indicates that Stoneham Savings Bank originated 33 or 86.8 percent of its small business loans in middle-income census tracts and 5 or 13.2 percent in upper-income census tracts. There were no originations in moderate-income census tracts.

Based on the above information, the Bank's distribution of HMDA-reportable loans and small business loans by census tract income level reflects an adequate dispersion of loans throughout the assessment area.

#### **IV. Borrower Characteristics**

##### **HMDA-Reportable Lending**

The Bank's HMDA reportable loans were further analyzed to determine the distribution of lending by borrower income level. Borrowers reported incomes were compared to the MFI of the Boston, Lowell, and Lawrence Metropolitan Statistical Areas ("MSA"s). These income figures are based on estimated Department of Housing and Urban Development ("HUD") information. The estimated incomes for the MSAs are illustrated in the following table.

<b>Table C – Median Family Income Levels</b>		
<b>MSA</b>	<b>2002</b>	<b>2003</b>
Lowell, MA-NH (4560)	\$75,200	\$79,700
Boston, MA-NH (1120)	\$74,200	\$80,800
Lawrence, MA-NH (4160)	\$67,400	\$74,300

Low-income is defined by the US Census Bureau as income below 50 percent of the median family income level for the MSA. Moderate-income is defined as income between 50 percent and 79 percent of the median family income level for the MSA. Middle-income is defined as income between 80 percent and 119 percent of the median income. Upper-income is defined as income equal to or greater than 120 percent of the median income.

The following table shows the number of HMDA reportable loans granted to low, moderate, middle and upper-income borrowers in comparison to the number of households in the assessment area in each respective income group.

##### **Borrower Distribution of HMDA Reportable Loans**

<b>Median Family Income Level</b>	<b>% Total House holds</b>	<b>2002</b>		<b>2003</b>		<b>Total</b>	
		<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
<b>Low</b>	19.3%	16	13.2%	12	8.8%	28	10.9%
<b>Moderate</b>	14.0%	22	18.2%	31	22.8%	53	20.6%
<b>Middle</b>	19.1%	49	40.5%	51	37.5%	100	38.9%
<b>Upper</b>	47.6%	33	27.3%	40	29.4%	73	28.4%
<b>N/A</b>	0.0	1	0.8%	2	1.5%	3	1.2%
<b>Total</b>	100.0%	121	100.0%	136	100.0%	257	100.0%

Source: U.S. Census, HMDA LAR – 2002 and 2003

The Bank extended 28 loans to low-income borrowers representing 10.9 percent of total HMDA loans within the assessment area. Lending to low-income borrowers is lower than the percentage of total households of low-income individuals throughout the assessment area. However, lending to moderate-income individuals is higher than that of the total percentage of households of moderate-income individuals residing in the assessment area.

Consideration is also given to housing prices when assessing the Bank's lending to low-income borrowers. As stated earlier, housing prices in the Bank's assessment area have been rising dramatically over the past few years and it is extremely difficult for low-income individuals to purchase homes.

The distribution of the Bank's loans among various borrower income levels may also be compared to that of all other HMDA reportable lenders in the assessment area. As previously mentioned, other HMDA reporters include bank and non-bank entities such as large national banking companies, other local banks, credit unions and mortgage companies. The most recent data available for this analysis relates to calendar year 2003 and is presented in the following table.

<b>Distribution of HMDA Reportable Loans Stoneham Savings Bank Compared to All Other Reporters</b>								
<b>Borrower Income Level</b>	<b>Number of Loans</b>				<b>Dollar Amount of Loans</b>			
	<b>Stoneham Savings Bank</b>		<b>All Other Reporters</b>		<b>Stoneham Savings Bank</b>		<b>All Other Reporters</b>	
	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>\$(000)</b>	<b>%</b>	<b>\$(000)</b>	<b>%</b>
<b>Low</b>	12	8.8%	3,391	4.8%	846	4.1%	435,691	2.8%
<b>Moderate</b>	31	22.8%	12,490	17.7%	3,812	18.7%	2,170,202	13.8%
<b>Middle</b>	51	37.5%	19,652	27.9%	8,101	39.6%	4,040,954	25.8%
<b>Upper</b>	40	29.4%	24,795	35.2%	7,516	36.8%	6,450,253	41.2%
<b>NA</b>	2	1.5%	10,137	14.4%	165	0.8%	2,567,704	16.4%
<b>Total</b>	136	100.0%	70,465	100.0%	20,440	100.0%	15,664,804	100.0%

Source: 2003 HMDA Aggregate Data

Stoneham Savings Bank's 2003 level of distribution of residential loans to low and moderate-income borrowers is very good. The Bank's percentage to these income levels exceeded that of the aggregate. Additionally, the percentages of originations to middle-income borrowers were also greater than that of the aggregate performance levels.

The distribution of the Bank's residential loans to low-income borrowers is higher by number and dollar amount than that of all other 495 HMDA reporters within the assessment area. The Bank originated 8.8 percent by number and 4.1 percent by dollar amount of the total loans within the assessment area to borrowers of low-income, compared to the aggregate with 4.8 percent by number and 2.8 percent by dollar amount.

HMDA reportable loans to moderate-income borrowers accounted for 22.8 percent by number and 18.7 percent by dollar amount within the assessment area. Both number and dollar amount are also above that of the aggregate.

Stoneham Savings Bank ranked 64th in market share in lending to low and moderate-income individuals in the assessment area during 2003. The Bank originated 43 loans to low and moderate-income borrowers capturing .26 percent of the market. The top three lenders to low and moderate-income borrowers within Stoneham Savings Bank's assessment are for 2003 were Countrywide Home Loans, GMAC Mortgage, and GMAC Bank.

Based on the information above, the Bank's residential lending to borrowers of different income levels, especially those of low and moderate-income is considered to be very good.

### **Small Business Lending**

Small business loans originated within the Bank's assessment area, during this period, were analyzed to determine the distribution among businesses of various sizes. Of the small business loans originated during this period, 76.3 percent were granted to businesses with annual revenues greater than \$1 million.

The small business loans originated within the Bank's assessment area were further analyzed to determine the typical loan amount at origination. Of the 38 loans originated throughout the assessment area, 44.7 percent had original loan amounts of \$100,000 or less, 29.0 percent were between \$100,000 and \$250,000, and 26.3 percent between \$250,000 and \$1,000,000.

The Bank's lending to businesses of various sizes with small business loans reflects an adequate level of performance.

### **V. Community Development Lending**

As defined in the CRA regulation, a community development loan is a loan that: 1) has as its primary purpose as community development; 2) except in the case of a wholesale or limited purpose bank, has not been reported or collected by the bank or an affiliate for consideration in the bank's assessment area as a home mortgage, small business, small farm, or consumer loan, unless it is a multi-family dwelling loan; and, benefits the bank's assessment area(s) or a broader statewide or regional area that includes the bank's assessment area(s).

Since the previous examination, Stoneham Savings Bank financed an affordable housing 40B development totaling \$5,343,000. The development consists of 40 units, of which 25 percent or 10 units are designated as affordable. The development is located within the Town of Wakefield, which is inside the Bank's assessment area.

The financing of this development qualifies as a community development loan and illustrates Stoneham Savings Bank's willingness to assist in the creation of affordable housing within its assessment area. This was the only community development loan originated during the review period. The Bank's community development lending is considered to be marginally adequate.

## **VI. Innovative or Flexible Lending Practices**

Stoneham Savings Bank serves the credit needs of its assessment area by offering a variety of fixed and adjustable rate mortgage products. Given the size and financial condition of the institution, the level of Bank involvement is considered good. The following highlights the various innovative and flexible loan programs offered by the institution.

Stoneham Savings Bank has its own first time homebuyers program in place. These are 5/1 arms and includes features such as lower rates, reduced closing costs, and \$500 savings from the attorney fee. From January 1, 2002 through November 30, 2004, the Bank granted 8 loans totaling \$1,555,195.

**Massachusetts Finance Housing Agency (MHFA)** – Stoneham Savings Bank continues to offer various programs through MHFA. These programs include Get the Lead out Program, Homeowner Septic Repair Loan Program, MHFA first time home buyer program, and MHFA's Municipal Mortgage Program.

From January 1, 2002 through November 30, 2004, Stoneham Savings Bank granted 10 lead loans through MHFA totaling \$197,188.

During the time period covered, Stoneham Savings granted one septic loan through the MHFA totaling \$20,000.

**HILP Loans** - The Bank in co-operation with the Town of Stoneham is one of six banks in the State working with the Massachusetts Housing Finance Agency (MHFA) to provide home improvement loans at five percent to qualified home owners of low and moderate-income.

**HOME Loans** – Home Owner Options for Massachusetts Elders works with elders in seeking the best alternative that will allow them to stay in their home, assist in providing a way to pay for health care needs, home repair, and a way to supplement their income. During 2002, 2003, and year-to-date November 30, 2004, Stoneham Savings Bank granted four loans under this program totaling approximately \$729,000.

**Massachusetts Housing Partnership (MHP)** – Stoneham Savings Bank offers the “Soft Second” loans to low and moderate-income first time home buyers to reduce their first mortgage amounts and to lower their initial monthly costs so they qualify to purchase a home. The participating lender underwrites a first mortgage for 75 percent of the purchase price and a second mortgage generally for 20 percent of the purchase price. The borrowers pay principal and interest on the first mortgage. The principal payments on the second mortgage are deferred for 10 years and a portion of the interest is paid under certain circumstances by public funds. The borrower does not pay mortgage insurance.

The Bank's level of innovative and flexible lending practices is considered to be good at this time.



## **VII. Fair Lending Policies and Practices**

Stoneham Savings Bank's fair lending policy and procedures are comprehensive in nature and address specific areas such as staff training, fair lending procedures, a loan application and an evaluation process as well as applicable rules and regulations regarding the Fair Housing Act, the Equal Credit Opportunity Act ("ECOA"), the Consumer Protection Act, and the Community Reinvestment Act.

All employees are provided with training appropriate to their job description and their responsibilities in fair lending issues. This includes information regarding both technical requirements that come into play, as well as the more substantive and subtle issues related to unintentional discrimination and quality of assistance. Fair Lending training was held in 2003 for all lending personnel.

Stoneham Savings Bank has 115 employees, 96 of which are full-time. There are several employees of the Bank who speak a second language, which aids individuals, who may not speak English. Stoneham Savings Bank markets its services and products to the community through a variety of mediums, with the majority including print advertisements.

No violations of the substantive provisions of ECOA or related laws and regulations were identified during the examination.

### **Minority Application Flow**

A review of HMDA reportable loan applications was conducted in order to determine the number of applications the Bank received from minorities. From January 1, 2002, through December 31, 2003, the Bank received 298 HMDA reportable loan applications from within its assessment area. During this period, 12 applications, or 4.0 percent, were received from minorities. Refer to the following table for further details.

**MINORITY APPLICATION FLOW**

<b>RACE</b>	<b>2003 Aggregate</b>		<b>2002</b>		<b>2003</b>		<b>TOTAL</b>	
	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
American Indian	248	0.3	1	0.7	1	0.6	2	0.7
Asian	3,068	3.4	4	2.9	1	0.6	5	1.7
Black	1,142	1.3	0	0.0	1	0.6	1	0.3
Hispanic	1,121	1.2	1	0.7	0	0.0	1	0.3
Joint Race	6,853	7.7	2	1.4	1	0.6	3	1.0
Other	1,572	1.8	0	0.0	0	0.0	0	0.0
<b>TOTAL MINORITY</b>	<b>14,004</b>	<b>15.7</b>	<b>8</b>	<b>5.7</b>	<b>4</b>	<b>2.4</b>	<b>12</b>	<b>4.0</b>
White	61,541	69.1	129	91.5	153	97.6	282	94.6
No Information	13,552	15.2	4	2.8	0	0.0	4	1.4
<b>TOTAL</b>	<b>89,097</b>	<b>100.0</b>	<b>141</b>	<b>100.0</b>	<b>157</b>	<b>100.0</b>	<b>298</b>	<b>100.0</b>

Source – 2002 and 2003 HMDA Data

The Bank's minority application flow for this period was compared with the racial composition of the assessment area and 2003 aggregate data for all HMDA reporters within the assessment area. The comparison of this data assists in deriving reasonable expectations for the institution's minority application flow.

According to 2000 census data, the Bank's assessment area contained a total population of 452,395 individuals, of which 10.8 percent are minorities. The minority population is 0.1 percent American Indian, 4.9 percent Asian, 2.3 percent Black, 2.0 percent Hispanic, and 1.5 percent Other.

Aggregate information indicated that, of the 89,097 HMDA reportable applications received within the assessment area in 2003, 15.7 percent were from minorities.

As indicated in the above table, the Bank's application flow is lower than what could be expected for all minority groups in its assessment area.

Furthermore, of the 12 minority applications received from the Bank's assessment area from 2002 and 2003, 10 or 83.3 percent resulted in originations and one was denied and one was approved not accepted.

### **VIII. Loss of Affordable Housing**

Stoneham Savings Bank's development of credit products with flexible lending criteria and participation in flexible lending programs has assisted low and moderate-income individuals to remain in their neighborhoods.

### **CONCLUSION (Lending Test)**

Taking into account the number and amount of home mortgage and small business loans in its assessment area, Stoneham Savings Bank has demonstrated adequate responsiveness to the assessment area's credit needs. The loans are well distributed throughout the communities in its assessment area, particularly within moderate-income geographies. The Bank's lending also demonstrates a good distribution of loans among individuals of different income levels and is considered adequate for lending to businesses of different sizes. Although community development lending is minimal, the institution has offered a good level of innovative products. In addition, the Bank's fair lending performance was found to be adequate at this time. Therefore, the institution's lending performance receives an overall rating of Satisfactory.

## **INVESTMENT TEST**

As defined under the CRA regulation, a qualified investment is a lawful investment, deposit, membership share or grant that has community development as its primary purpose. Community development includes affordable housing for low and moderate-income individuals, community services targeted to low and moderate-income individuals, activities that promote economic development by financing small businesses or small farms, and activities that revitalize or stabilize low and moderate-income geographies. In recognition of the many legal limitations on bank investments, and the long-term nature and complexity of many community development investments, the CRA regulation allows some reasonable consideration for the entire bank portfolio of qualified investments, not just those made since the previous CRA examination.

### ***Qualified Investment***

In 2003, Stoneham Savings Bank entered into a cooperative partnership with Stoneham Community Services Network related to Individual Development Accounts (“IDA”). The IDA accounts are earnings-bearing accounts in which the deposited funds and the earnings on the funds are usually tax exempt. An IDA account is a vehicle by which the account holder can more quickly accumulate funds to acquire and retain a long-term asset, with the assistance and involvement of community based organizations, financial institutions, state or local governments, and the private sector. The IDA account was instituted to serve low-income families in an effort to provide funding for the purchase of a home. Stoneham Savings Bank has committed to twenty-five accounts through this program totaling \$28,750. Although this is considered a grant on behalf of the institution, it illustrates the Bank’s willingness to explore CRA initiatives.

### ***Charitable Contributions***

During 2002, 2003, and year to date November 30, 2004, the Bank made total monetary contributions of \$10,130, \$13,115, and \$16,016, respectively. The following are examples of the organizations receiving assistance.

- *Tri-City Housing* – The program provides transitional and permanent housing and support services to homeless families in Malden, Medford, and Everett.
- *ACB Housing Partners/Habitat for Humanity* - This not for profit organization assists families in attaining home ownership through self- help and outside donations of cash, materials, and labor. Home construction is accomplished primarily through voluntary laborers who build houses that are then sold to selected low-income families.
- *Caritas Communities* – This program assists low-income residents to obtain affordable housing and other various services.
- *Consumer Credit Counseling Services (“CCCS”)* – CCCS is a non-profit agency that provides counseling to individuals experiencing financial hardship. Educational training is also provided in an effort to help individuals achieve their financial goals.

- *Homeowners Options for Massachusetts Elders* - The Bank contributed to this organization to support its efforts to create affordable housing and housing services for low-income families and individuals throughout its assessment area.

In addition to the above organizations, Stoneham Savings Bank made donations to food pantries, consumer credit counseling services, and to services for low and moderate-income elders.

Stoneham Savings Bank also contributes the use of Bank meeting room facilities on a regular basis to area non-profit, civic, and community groups at no cost.

### **CONCLUSION (Investment Test)**

As depicted above, Stoneham Savings Bank's level of investments are considered marginally adequate in light of the size of the institution. However, the Bank's involvement with the Community Services Network is considered to be somewhat innovative and more complex than normal grants and contributions for an institution this size. This is the first time Stoneham Savings Bank is being evaluated utilizing the large bank procedures for the Community Reinvestment Act. The Bank's qualified investments during 2002, 2003, and year to date November 30, 2004, are considered to be satisfactory.

## **SERVICE TEST**

The Service Test evaluates an institution's record of helping to meet the credit needs of its assessment area by analyzing both the availability and effectiveness of an institution's systems for delivering retail banking services and the extent and innovativeness of its community development services.

### **Retail Banking Services**

Stoneham Savings Bank's main office is located at 359 Main Street, a middle-income census tract, in Stoneham, Massachusetts. In addition, there is a distribution of six branch offices. There has been one branch opened since the previous examination. This branch is located at 443 Charles Street in Malden, in a moderate-income census tract. The dispersion of the other branches by geographies depict that all branches are located in middle-income census tracts. Four of the Bank's six branches also have drive-up accessibility with extended hours. All full service offices are opened on Saturday and offer extended hours during the week on Thursdays and Fridays.

### **Alternative Retail Services**

- **InfoLine Telephone Banking:** Stoneham Savings Bank offers a 24 hour toll-free automated telephone banking center. This allows consumers to obtain account balances and updates of activity, current rates, office hours, loan account information, transfer and verification of funds, rates and general information, as well as an assistance line available during regular business hours.
- **Computer Banking (via the Bank's website):** The Bank's web site provides current deposit account and loan rates, banking information and special offers.

The Bank also participates in the Cashing of Public Assistance Checks for non-customers and the MCBC Basic Banking for Massachusetts program.

### **Community Development Services**

The CRA regulation defines a community development service as a service that has as its primary purpose community development and is related to the provision of financial services. The Bank's trustees, officers and employees are involved with community organizations that address economic and affordable housing development. Through these involvement's, the Bank's staff lends their technical expertise, experience and judgment to these organizations. Detailed below are Stoneham Savings Bank's qualified community development services.

The Bank's President/Chief Executive Officer serves on the Board of Directors for the Visiting Nurses Association ("VNA"). The VNA provides medical services for in-home medical care and hospice.

The President also serves as member of the Finance Committee for the Tri-City Housing in Malden. Tri-City Housing provides transitional and permanent housing and support services to homeless families in Malden, Medford, and Everett.

A Vice President/Senior Loan Officer serves as an Executive Board Member of the Community Services Network (“CSN”). The mission of CSN is to help low and moderate-income clients access the knowledge, skills, and services that promote independence and self sufficiency. The Bank’s involvement with this organization has led to the Bank’s participation in an innovative grant program targeting low and moderate-income first time home buyers.

The Bank’s Vice President/Treasurer serves as the Treasurer of the Salvation Army. This organization raises money that will be used to provide clothing, heating oil, and food to low-income families throughout the assessment area.

A Vice President from the Bank serves on the Board of Directors of HOME. HOME works with elders in seeking the best alternative way that will allow them to remain in their homes, assists in providing a way to pay for health care needs, home repairs, and a way to supplement their income.

Two Branch Managers of Stoneham Savings Bank currently serve as members of the Merrimack Valley Chamber of Commerce.

### **Educational Seminars**

In addition to its work with local community organizations, the Bank recognized the need for and established a wide variety of consumer education programs. Program topics have benefited small business owners, aspiring entrepreneurs, first-time homebuyers, school children and senior citizens. An example of these educational trainings is detailed below.

The Bank continues to sponsor various seminars, including a Home Buyers Seminar Certificate program offered through the CSN. This intense seminar of approximately 16 hours covers everything from reviewing the purchase and sales agreement with a representing attorney, the full loan process, environmental concerns such as Title V (Septic), and various programs offered by the Commonwealth for first time home buyers. Employees from the Bank participate in the training that covers all aspects of the mortgage process. The certificate enables first time home buyers access to various programs offered by MHFA.

### **CONCLUSION (Service Test)**

As depicted above, by providing financial expertise services, officers and employees of the Bank have demonstrated a good level of community development service activities. A community contact within the assessment area has repeatedly identified affordable housing and the ability of low and moderate-income families to obtain credit as paramount needs. The Bank’s primary focus of community development service has been the promotion of additional affordable housing, assisting in meeting the credit needs of low and moderate-income families as well as low-income elders. Additionally, the continued commitment towards consumer educational programs is noteworthy. Therefore, Stoneham Savings Bank’s service activities receive a rating of High Satisfactory.

## **APPENDIX A**

### **SCOPE OF EXAMINATION**

Stoneham Savings Bank's assessment area is defined as 15 cities and towns located within the Boston, Lawrence, and Lowell MSAs. The institution's CRA performance was reviewed using the large bank examination procedures. The time period covered in this examination was January 1, 2002, through November 30, 2004, using data as available.

All HMDA-reportable loans recorded on the 2002 and 2003 Loan Application Registers were included in the evaluation of the Bank's lending performance. In addition, all loans recorded on the 2003 Small Business Loan Register (as defined under the data collection requirements of the revised CRA regulation) were included in the evaluation of the Bank's lending performance.

Qualified investments were also reviewed. The Bank primarily participates in qualified investments through its participation in provision of grants directed at low and moderate-income individuals and areas.

In addition, the Bank's systems for delivering retail banking services and the provision of service activities primarily for community development purposes and related to the provision of financial services were considered.

This examination also included a review of the Bank's Public File, which contained no negative CRA-related comments.

# PERFORMANCE EVALUATION DISCLOSURE GUIDE

Massachusetts General Laws Chapter 167, Section 14, as amended, and the Uniform Interagency Community Reinvestment Act (CRA) Guidelines for Disclosure of Written Evaluations require all financial institutions to take the following actions within 30 business days of receipt of the CRA evaluation of their institution:

- 1) Make its most current CRA performance evaluation available to the public;
- 2) At a minimum, place the evaluation in the institution's CRA public file located at the head office and at a designated office in each assessment area;
- 3) Add the following language to the institution's required CRA public notice that is posted in each depository facility:

"You may obtain the public section of our most recent CRA Performance Evaluation, which was prepared by the Massachusetts Division of Banks, at 359 Main Street, Stoneham, Massachusetts, 02180."

[Please Note: If the institution has more than one assessment area, each office (other than off-premises electronic deposit facilities) in that area shall also include the address of the designated office for that area.]

- 4) Provide a copy of its current evaluation to the public, upon request. In connection with this, the institution is authorized to charge a fee which does not exceed the cost of reproduction and mailing (if applicable).

The format and content of the institution's evaluation, as prepared by its supervisory agency, may not be altered or abridged in any manner. The institution is encouraged to include its response to the evaluation in its CRA public file.